Supporting Statement for OMB No. 7100-0085:
Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835) and
Quarterly Report of Credit Card Plans (FR 2835a)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with minor revision, two consumer credit reports:

- The Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835; OMB No. 7100-0085), which collects finance rates on selected loan types from a sample of commercial banks.
- The Quarterly Report of Credit Card Plans (FR 2835a; OMB No. 7100-0085), which collects credit card interest rates from a sample of commercial banks.

Data from these two reports, together with data obtained from another Federal Reserve report and secondary sources, are used to construct information on consumer credit for current analysis and monetary policy purposes.[1] Consumer credit data are incorporated in the Flow of Funds accounts and constitute a part of the domestic nonfinancial debt aggregate monitored by the Federal Open Market Committee (FOMC). Aggregate consumer credit data on the amount and terms of credit are published in the Board's monthly G.19 statistical release, "Consumer Credit," and in the Board's quarterly Z.1 statistical release, "Flow of Funds Accounts of the United States." Consumer credit data also are published in the *Federal Reserve Bulletin* and in various publications of the Council of Economic Advisors and the Bureau of Economic Analysis. The current reporting forms and instructions are available on the Board's public website.

The Federal Reserve proposes to decrease the authorized sample size for the FR 2835a from 100 commercial banks to 80 commercial banks; 24 banks currently report. The proposed decrease in panel size would lower the total estimated annual burden from 290 hours to 250 hours. The authorized sample size for the FR 2835 would remain at 150 commercial banks; 116 banks currently report.

Background and Justification

The Federal Reserve has been the primary producer of aggregate statistics on consumer credit since 1942. This role stems from the Federal Reserve's responsibility for monetary policy and its responsibilities and data requirements for regulating consumer credit. Since the 1940s, the Federal Reserve has maintained a program for the direct collection of consumer credit data from

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1. The other Federal Reserve report on which consumer credit information is collected are the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005), which undergoes clearance separately from the specialized consumer credit reports. The Federal Reserve obtains, from outside sources, information about credit aggregates at credit unions, retailers, savings and loan associations, and savings banks.

commercial banks and finance companies. It obtains information for other credit groups mainly through secondary sources.[2]

The Federal Reserve has revised the consumer credit data collection program over the years to lessen reporting burden, to eliminate items of dubious quality, and to focus on items of highest priority for analysis. An exhaustive review of the program in 1982 resulted in major revisions as of January 1983. Data on gross credit flows were eliminated for all major lending groups except finance companies, the number of series on interest rates and nonrate loan terms was reduced sharply, and the size of the bank interest rate panel was cut.[3] Overall, respondent burden was reduced by almost 50 percent. In addition, three of the four statistical releases were eliminated.

Later changes included the introduction of the FR 2835a in 1994 to obtain better data on credit card interest rates. Prior to the creation of the FR 2835a, limited credit card interest rate data was collected on the FR 2835. The Federal Reserve then redirected its collection efforts for card rates towards large issuers of credit cards to avoid burdening the majority of the FR 2835 respondents, who were not large credit card issuers.

The Federal Reserve's long-standing interest in consumer borrowing arises from a need to evaluate the probable consequences of monetary policy actions on prices, employment, and output. The necessity for at least a rudimentary body of consumer credit data follows from the importance of consumption expenditure, which is by far the largest component of gross domestic product (GDP), accounting for close to two-thirds of that aggregate. Apart from the size of consumer spending, some of its components are volatile and thus crucial to the study of economic fluctuations; many of the more volatile components of consumer spending rely heavily on consumer credit financing. Understanding the cyclical behavior of the markets for household debt requires information on the volume and pricing of consumer credit.

Description of Information Collection

The two reports being renewed would continue to gather data from commercial banks on consumer credit. Further detail about each of the reports is given below.

Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835)

The FR 2835 collects the most common interest rate charged at a sample of about 150 commercial banks on two types of consumer loans made in a given week each quarter: new auto loans and other loans for consumer goods and personal expenditures. The data are reported for the calendar week beginning on the first Monday of each survey month (February, May, August, and November). The most common rate means the rate at which the largest dollar volume of

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2. Until the early 1960s, the Federal Reserve also operated an extensive data collection and publication program covering department store credit; that responsibility was transferred to the Bureau of the Census in 1963.

3. In 1988, gross flow data were eliminated from the FR 2248.

loans of a particular type was made during the reporting week. For adjustable-rate loans, the initial rate is reported. The data are used internally, and averages of the rates are published in the G.19 statistical release.

Item Detail. Interest rates on consumer loans made by commercial banks continue to be analytically significant. Auto and personal loans are major components of bank consumer lending, and changes in the costs of these funds are of interest to the Federal Reserve as an indicator of how monetary policy affects this sector.

Frequency. Continued collection of these data at least quarterly is necessary to analyze the effect of monetary policy, especially in the cyclical context so useful to the Federal Reserve. Indeed, the Federal Reserve considered increasing the frequency of the FR 2835 survey from quarterly to monthly to be able to respond to Board and Congressional inquiries on a more timely basis. However, because of increased respondent burden, the Federal Resereve is not recommending a monthly frequency for the FR 2835, especially since monthly data on automobile finance terms are available for captive auto finance company subsidiaries in the monthly report on Auto Finance Terms (FR 2005).

Reporting Panel. The authorized reporting panel for the FR 2835 consists of 150 commercial banks. The reporting panel originally was 370 respondents. Reductions occurred in 1975, 1982 and again in 1997, when the Federal Reserve determined that a sample of 150 banks would meet accuracy criterion based on the then-existing larger sample.

Quarterly Report of Credit Card Plans (FR 2835a)

The FR 2835a collects information on two measures of credit card interest rates from a sample of about 100 commercial banks (authorized panel size), selected to include banks with $1 billion or more in credit card receivables, and a representative group of smaller issuers. The data are representative of interest rates paid by consumers on bank credit cards because the panel includes virtually all large issuers and an appropriate sample of other issuers. Currently, outstanding balances at panel banks represent about 40 percent of all owned and managed credit card receivables at commercial banks. These data allow the Federal Reserve to monitor the credit card market. The data are used for current analysis, and grouped averages are published in the G.19 release.

More rudimentary credit card interest rate data originally were collected on the FR 2835 reporting form. Credit cards were in an early stage of development when the FR 2835 was initiated in 1972; total commercial bank credit card receivables were about $10 billion then, compared with about $589 billion in November 1999. At that time, a card-issuing bank usually charged a single interest rate applicable to all accounts. The most common rate reported on the FR 2835 adequately reflected a card issuer's pricing of credit card debt. However, pricing in the credit card market has changed significantly in recent years, and a bank's most commonly charged interest rate no longer adequately represents interest rates faced by cardholders. Many card issuers now offer a broad spectrum of card plans with differing interest rates. Thus, the

FR 2835a, which incorporates in its average the entire spectrum of rates charged by respondents, continues to be needed as a separate report.

Item Detail. To capture the diversity of credit card interest rates, the FR 2835a collects information on two measures of average rates from commercial banks that issue credit cards. These measures reflect the interest rates offered in the credit market and the finance charges paid by cardholders.

(1) Average nominal finance rate. For development of the first measure, designated here as the *Average nominal finance rate, all accounts* (item 1), issuers calculate the simple average, across all accounts, of the nominal interest rate applicable to purchase activity on each account.[4] Equivalently, respondents may calculate the weighted average of nominal interest rates, with the percentage of accounts at each rate serving as the weights. Respondents also are asked to provide *Total number of accounts* (item 2), so that the staff can calculate the group-weighted average.

The average nominal finance rate reveals at what rates, on average, banks are offering to make credit available to cardholders. This measure abstracts from cardholder behavior that may affect rates that cardholders actually pay on average. For instance, many cardholders are "convenience users" who avoid finance charges altogether by paying billed amounts in full within an interest-free grace period. Interest rates on accounts of convenience users may differ from rates of cardholders who incur finance charges.[5] The average nominal interest rate as defined here makes no distinctions among accounts, however; it simply reflects the rates offered, regardless of the extent to which cardholders respond to that offer.

(2) Average computed finance rate. For development of the second measure, the "average computed finance rate," respondents report *Total finance charges billed in period* (item 3) and *Total balances on which finance charges are computed (average daily balances), for accounts with finance charges* (item 4). The Board staff then calculates the average computed finance rate by dividing item 3 by item 4, and multiplying the result by twelve to obtain an annualized rate. With these two items, the staff constructs a volume-weighted average finance rate for the group.

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4. The rate applicable to cash advances is not collected. Often the rates applicable to debt arising from purchases and cash advances are the same, but not always.

5. The difference between rates among cardholders of differing payment habits is *a priori* unclear. But the factors determining interest rates clearly operate differently on each type of user. Convenience users, since they ordinarily do not incur finance changes, tend to be insensitive to rates, and would seem as likely to choose a high-rate as a low-rate card. However, insofar as convenience users are low-risk customers, card issuers may offer them lower rates (perhaps hoping that a low enough rate may stimulate some revolving of balances). Thus, there is ambiguity as to whether, on balance, convenience users will have higher rates or lower rates. Those who revolve balances would be likely to seek low-rate cards. But insofar as they are higher-risk customers, card issuers may not offer them lower rates. Again, it is ambiguous which factor will dominate. The bank's ideal cardholder would be one who revolves balances but always makes timely payments. Presumably, market forces work towards supplying these customers with low-rate cards, but the proportion of all accounts represented by these "ideal" customers is unknown.

The average computed finance rate reveals the interest rates actually paid by those consumers who use their credit cards to obtain credit (beyond any initial grace period), as distinct from the offering rates available to cardholders.[6]

The collection of information on both measures is necessary, given the variety of applications at the Federal Reserve that require data on credit card interest rates. For example, Board members have been asked to testify before the Congress on proposed federal legislation to set ceilings on credit card rates. Such legislative efforts usually have risen from the perception that credit card rates are exceptionally high and do not respond to changes in funding costs.

One difficulty in assessing the legislative proposals had been that rate information available prior to the initiation of the FR 2835a provided an inaccurate picture of the industry's rate structure. While both rate measures now provided by the FR 2835a shed light on credit card pricing, the average nominal rate is more relevant to the inquiries on credit card pricing made in the past by the Congress, while the average computed rate is usually more relevant to the macro-economic issues addressed in monetary policy deliberations. For example, in analyzing consumer borrowing and spending behavior and assessing the burden of debt servicing costs on the household sector, it is important to have accurate data on rates faced by those who are actually in debt.

Total balances. Respondents also are asked to provide the total ending balances for all accounts (item 5), and total ending balances for all accounts with finance charges (item 6). Obtaining data with this breakdown yields an additional important analytical measure. Subtracting the balances on which finance charges were assessed (item 6) from total balances in all accounts (item 5) provides a measure of convenience credit and enables the Federal Reserve to monitor changes over time in the relative amounts of convenience credit and longer-term borrowing. In view of market changes which may accelerate the growth of convenience credit, such as expanded use of cards in supermarkets and offers of rebates and merchandise credits tied to the volume of card use, it is important to quantify the incidence of convenience credit. Such information is relevant to monetary policy because the use of credit cards economizes on the need for money balances, possibly altering the public's demand for money and affecting the growth paths of the monetary aggregates relative to real activity and income.

Frequency. The FR 2835a survey is conducted quarterly, in February, May, August, and November, consistent with the FR 2835 survey. As with the FR 2835, the quarterly frequency is adequate to track movements in credit card finance rates, but reporting on a less frequent schedule would not be sufficient for cyclical analysis.

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6. It might appear that the average computed rate duplicates information available from the Consolidated Reports of Condition and Income (Call Report; FFIEC 031 & 041; 7100-0036), as outstanding receivables and interest income are items reported there for revolving credit. Also, the average computed rate reported on the FR 2835a covers only balances in accounts that actually incur finance charges, whereas the Call Report covers all balances, whether of true borrowers or of convenience users.

Reporting Panel. When the FR 2835a was originally proposed as a separate information collection in 1993, the Federal Reserve identified 91 large card issuers that were essential to the panel. Fifty-nine smaller banks were randomly chosen to ensure that the sample would be representative in light of important differences between the larger banks and the smaller regional card issuers. At that time, 59 banks was the minimum number that provided an acceptable standard error of the estimate of total credit card interest and fees accruing to the small-bank universe. However, the rapid pace of consolidation in the banking sector has eliminated many previous and potential respondents, and this panel never exceeded 100 respondents. Therefore, in 1997 the panel was reduced to 100 credit card issuing commercial banks, consisting of issuers with $1 billion or more in revolving credit receivables (including receivables on their balance sheets as well as off balance sheet in securitized pools), and a randomly drawn sample representing the remainder of the bank card industry.

Despite the consolidation, coverage has been maintained at just under 40 percent of credit card receivables at commercial banks. In some cases this is because after a bank acquires other banks, it centralizes its financial reporting such that a single response covers, or exceeds, the information previously gathered from several respondents, as well as adding information from banks that were not reporting prior to being acquired.

The Federal Reserve proposes reducing the authorized panel size from 100 commercial banks to 80 commercial banks. The Federal Reserve feels that the reduction in the authorized panel size allows for adequate representation while permitting expansion of the respondent pool should the need arise.

Consultation Outside the Federal Reserve System

There has been no consultation outside the Federal Reserve System.

Time Schedule for Information Collection and Publication

The reporting schedules are listed below:

Report	*Frequency*	*Reference period*	*Due date at Board*
FR 2835	quarterly	first full week of the mid-month of the quarter	second week following the reference week
FR 2835a	quarterly	full mid-month of the quarter	21st day of month following the reference month

Most of these data are published in the Board's monthly G.19 statistical release "Consumer Credit." The G.19 is released on or about the fifth business day of the second month following the reference month. The release contains aggregate data on consumer credit outstanding and lending terms. Less detailed information is included in the Board's quarterly Z.1 statistical release "Flow of Funds Accounts of the United States." Consumer credit data also are published in the *Federal Reserve Bulletin* (tables 1.51, 1.52, 1.55, and 1.56) and in publications of the Council of Economic Advisors (*Economic Report of the President*) and of the Bureau of Economic Analysis (*Business Conditions Digest*). Copies of the statistical releases, sections of the *Federal Reserve Bulletin*, and all forms and instructions are available on the Federal Reserve's public web site (www.federalreserve.gov).

Legal Status

The Board's Legal Division has determined that these reports are voluntary and are authorized by law FR 2835 and FR 2835a (12 U.S.C. §248(a)(2)). Data from the FR 2835, which collects information on interest rates at commercial banks, are not confidential. Each FR 2835 respondent is notified that the information it reports is available to the public upon request. Individual respondent data from the FR 2835a are confidential under the Freedom of Information Act (5 U.S.C. §552(b)(4)).

Estimate of Respondent Burden

As shown in the table below, the proposed estimated annual burden of the four reports is 250 hours, which represents a decrease of 40 hours. This decrease is due to a reduction in the authorized panel size for the FR 2835a. The estimated burden represents less than 1 percent of total Federal Reserve System burden.

	Number of respondents	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
Current				
FR 2835	150	4	.15	90
FR 2835a	100	4	.50	200
total				290
Proposed				
FR 2835	150	4	.15	90
FR 2835a	80	4	.50	160
total				250
change				-40

Based on a rate of $20 per hour, the estimated annual cost to the public of these reports would decrease from $5,800 to $5,000.

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimates of Costs to the Federal Reserve System

The current estimated annual cost to the Federal Reserve System of collecting and processing the FR 2835 and FR 2835a is $30,400.